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C O N F I D E N T I A L SECTION 01 OF 02 ISLAMABAD 001534

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SUBJECT: AMBASSADOR AND FINANCE MINISTER DAR DISCUSS PAKISTAN'S
ECONOMIC SITUATION

Classified by: Ambassador Anne W. Patterson for reasons 1.4 (b) and
(d)

Summary

¶1. (C) Summary: Ambassador met with newly-appointed Finance Minister Mohammad Ishaq Dar (PML-N) April 8. Pakistan's current fiscal crisis and need for fiscal austerity shape Dar's plan to ask for a shadow International Monetary Fund (IMF) program, pending Coalition Support Fund (CSF) payments, and outstanding payments to U.S. energy companies Chevron and AES. Embassy requests that CSF payments be moved as quickly as possible for reimbursement. Dar recounted that he had not sought the Finance Minister position but obviously relished his new position. Dar departed April 9 for the spring World Bank/IMF meetings in Washington. End Summary.

Dar seeks a shadow IMF program

¶2. (C) The Ambassador met April 8 with newly-appointed Finance Minister Mohammad Ishaq Dar of the Pakistan Muslim League-Nawaz (PML-N). Dar departed April 9 for the spring World Bank/IMF meetings in Washington. Pakistan's worsening fiscal and current account deficits are Dar's principle concerns, pointing out that the previous government had "not left him with a clean slate" and had made economic decisions "based on political expediency." Dar told the Ambassador that he plans to ask the International Monetary Fund for a shadow IMF program to promote fiscal discipline on the new government. (Comment: It was unclear whether Dar had discussed this decision with other members of the coalition government. End comment.) Dar recounted that he was seeking to impose austerity measures across the board, including for the military. Referring to his experience in government in 1999, he thought that, with appropriate measures, the fiscal situation would be manageable in a few months.

¶3. (C) Increased tax revenues are one way out of the fiscal crisis, opined Dar. "The system is too regressive, and we need to focus on a pro-poor tax regime and increase the tax base." The Ambassador agreed, noting her surprise that there are only 1.5-2 million income tax filers in Pakistan, with its population of 165 million.

Coalition Support Fund payments

¶4. (C) The Ambassador raised Coalition Support Fund (CSF)

reimbursements, and pledged to do everything possible to speed reimbursements. (Currently CENTCOM is processing a \$285.3 million reimbursement.) The Ambassador highlighted that "the CSF reimbursement process is not sustainable" and requested that Dar sit down with the military, the embassy, and others to develop a more transparent system where more of the reimbursements go to actual military needs in the GWOT. Ambassador noted that January claims had exceeded \$200 million, or an annual rate of \$2.4 billion. Dar promised to "have a frank discussion" with the military, commenting that the "claims should be able to be audited." He also commented that he would revisit generally the military's procurement program for possible cost savings as "expenditures are too high" and stressed the "military should contribute its share to cost savings in tight budget times."

Outstanding payments to energy companies

15. (C) The Ambassador raised outstanding payments to Chevron (\$64 million) and AES (\$206 million) to cover the differential between international market prices for fuel and the far lower prices in Pakistan. Dar highlighted the GOP's fiscal constraints but said that he had made approximately \$260 million available for payments to the energy companies.

Comment

16. (C) Comment: As a chartered accountant, Dar is all too keenly aware of Pakistan's current fiscal constraints and the need for fiscal austerity and broadening the revenue base to address them. While Dar told us that he did not seek to become Finance Minister, he was clearly enjoying his new role. Washington interlocutors will find Dar charming but still short on specific policies. Former

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Finance Minister Salman Shah's civil service team is still in place, and Dar did not mention whether he plans to make changes. End comment.

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